

Industrial Market enters 2026 in Transition as Demand Cools and Fundamentals Soften

▲ 6.7%
Vacancy Rate

▼ (554,857)
SF Net Absorption

▲ 125,076
SF Construction Delivered

▲ 946,266
SF Under Construction

▼ \$1.41
NNN/MTH Direct Lease Rate

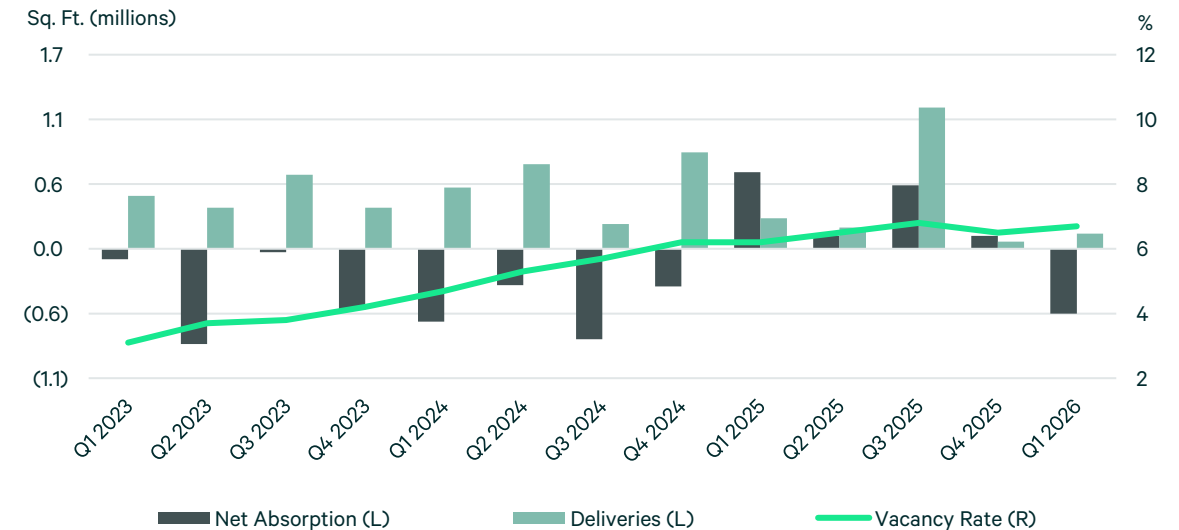
Note: Arrows indicate change from previous quarter.

Market Overview

The Industrial market experienced a significant decline at the start of 2026, as overall demand faded. In Q1 2026, net absorption fell to negative 554,857 sq. ft., a considerable shift of approximately 1.2 million sq. ft. from the 645,773 sq. ft. of positive absorption recorded in Q1 2025. It was also a sizeable reduction from the 106,003 sq. ft. reported in Q4 2025. This pullback contributed in increasing vacancy to 6.7%, up 20 basis points (bps) quarter-over-quarter (Q-o-Q) and 50 bps year-over-year (Y-o-Y). Availability also increased to 9.7%, 40 and 90 bps higher over the same comparisons. Pricing adjusted accordingly, with average asking rents declining 1.9% Q-o-Q and 4.6% Y-o-Y to \$1.41 per sq. ft.

Construction activity continued to fluctuate in Q1 2026. While space under construction rose 8.4% from Q4 2025 to 946,266 sq. ft., it was down 42.0% from 1.6 million sq. ft. a year earlier. The number of projects underway also decreased from 44 to 11 over the same period. While Deliveries (125,076 sq. ft.) more than doubled the 61,999 sq. ft. completed in Q4 2025, it remained 52.1% lower than the 261,135 sq. ft. completed in Q1 2025. The combination of soft demand, higher vacancy and availability, and a sharply reduced pipeline highlighted a market still navigating existing space despite some moderation in new supply.

Figure 1: Historical Net Absorption, Deliveries, and Vacancy



Source: CBRE Research, Q1 2026

Availability Rate

The market availability rate finished slightly higher in Q1 2026 at 9.7%, up from 9.3% in Q4 2025. Availability increased Y-o-Y from 8.8% in Q1 2025 to 9.7% in Q1 2026. Over the last three years, availability has steadily risen from 5.7% in Q1 2023 to 9.7% in Q1 2026.

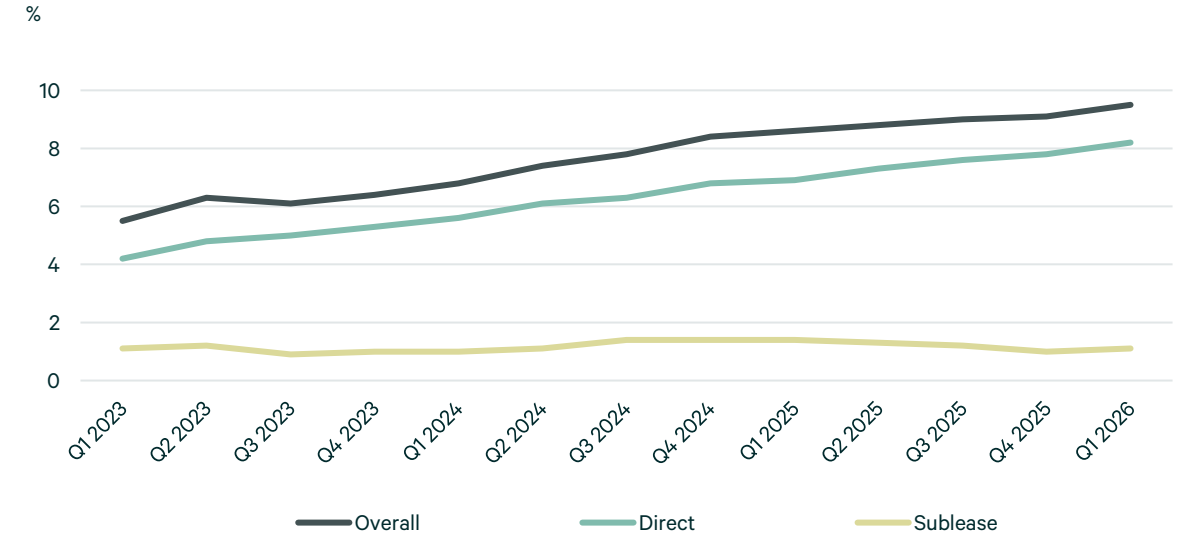
The East County submarket had the lowest availability rate in the metro at 3.5%, followed by Southwest Riverside at 8.0%. South San Diego recorded the highest availability rate at 14.6%, while Central San Diego and North County posted availability of 8.5% and 9.6%, respectively.

Sublease availability experienced a nominal increase to 1.3% in Q1 2026, compared to 1.2% recorded in Q4 2025. In total, there was 2.4 million sq. ft. of sublease space on the market across the five submarkets in Q1 2026.

Asking Rent

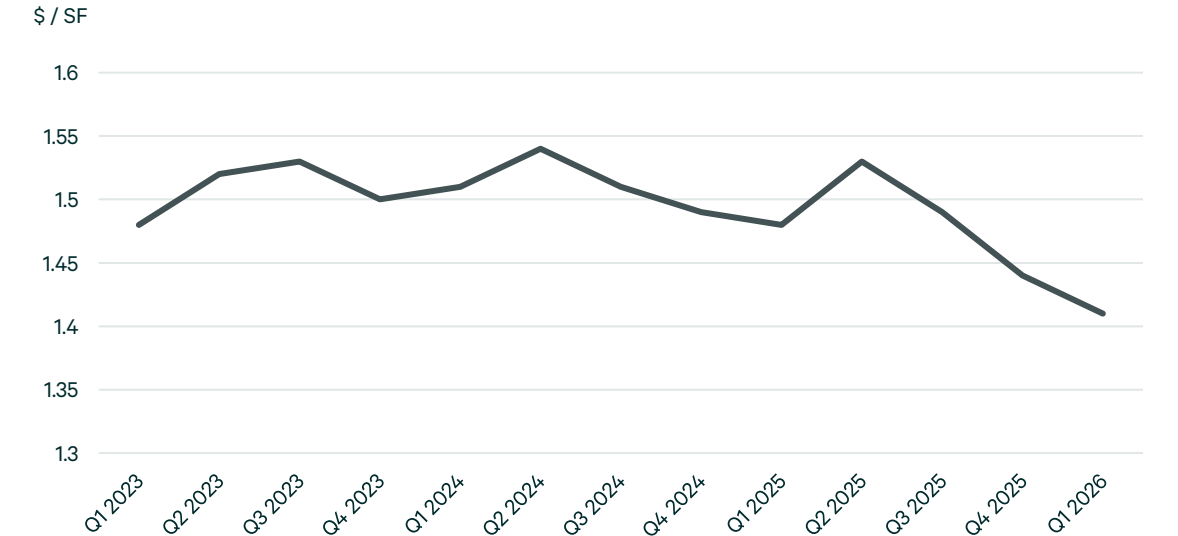
Average asking rent was \$1.41 per sq. ft. in Q1 2026. This was down 2.1% Q-o-Q and 4.7% Y-o-Y, reflecting a modest decline over the past year. Central San Diego posted the highest average asking lease rate at \$1.80 per sq. ft., followed by East County at \$1.53 per sq. ft. Among the remaining submarkets, North County averaged \$1.36 per sq. ft., Southwest Riverside \$1.22 per sq. ft., and South San Diego \$1.18 per sq. ft. There was a \$0.62 per sq. ft. spread between the highest and lowest rates.

Figure 2: Availability Rates



Source: CBRE Research, Q1 2026

Figure 3: Average Direct Asking Rate



Source: CBRE Research, Q1 2026

Net Absorption

In Q1 2026, Industrial reported negative net absorption of 554,857 sq. ft. It was the first time the market had experienced negative absorption in over a year (Q4 2024). East County was the lone submarket to achieve positive net absorption in Q1 (31,819 sq. ft.). The remaining four all recorded negative net absorption.

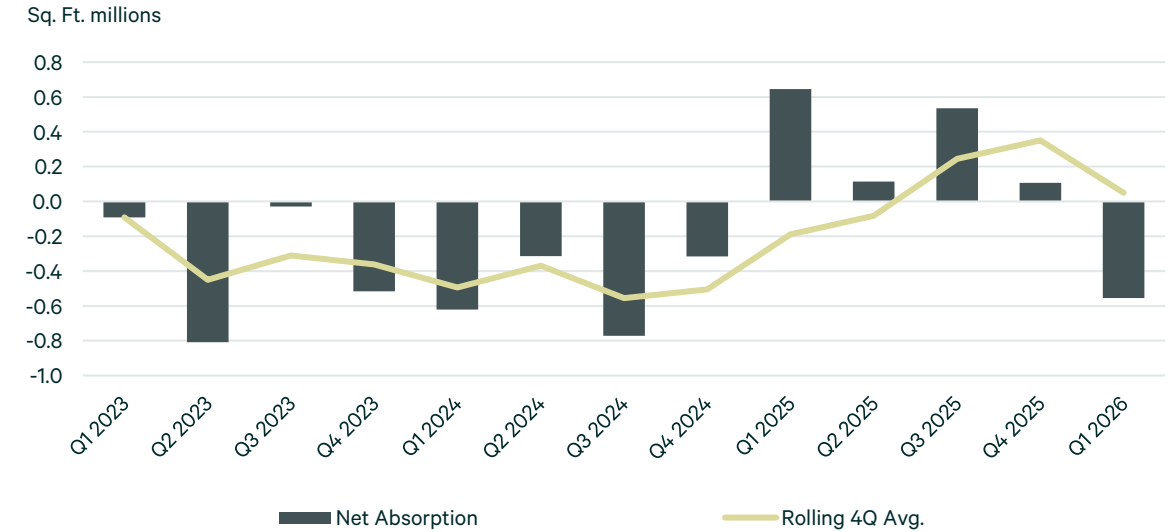
North County had the most negative net absorption (362,217 sq. ft.) in the market. This was significantly influenced by large tenants vacating 118,800 sq. ft. at Vista Distribution Center (1205-1211 Park Center Dr.) and 69,418 sq. ft. at Vista Commerce Center (3030 Enterprise Ct.). Central San Diego was second with negative 145,957 sq. ft., followed by, South San Diego (65,593 sq. ft.) and Southwest Riverside (12,909 sq. ft.).

Construction Activity

In Q1 2026, the San Diego industrial market had 946,266 sq. ft. under construction and delivered 125,076 sq. ft. of new product. Under construction volume rose 8.4% Q-o-Q but was down 42.0% Y-o-Y, while deliveries increased 101.6% from Q4 2025 yet were 52.1% lower than in Q1 2025. For full-year 2025, construction deliveries totaled roughly 1.7 million sq. ft.

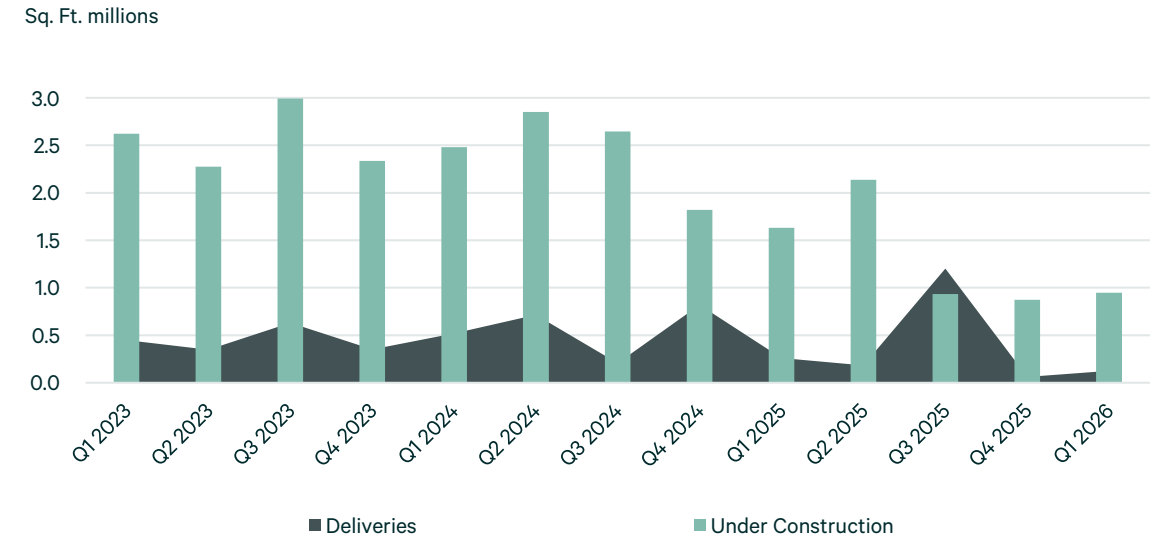
Under construction activity is concentrated in South San Diego and Central San Diego, which together account for 794,239 sq. ft. across five fully pre-leased distribution/logistics projects. The largest projects are South San Diego’s Otay Business Park – Phase 1 – Building 2 at 233,880 sq. ft. and Building 1 at 203,200 sq. ft., followed by 9323 Balboa Ave in Central San Diego at 178,175 sq. ft. and South San Diego’s Buildings 3A and 3B at 95,400 sq. ft. and 79,760 sq. ft., respectively, with Q2 2026 delivery timelines for the Otay assets.

Figure 4: Net Absorption Trend



Source: CBRE Research, Q1 2026

Figure 5: Construction Activity



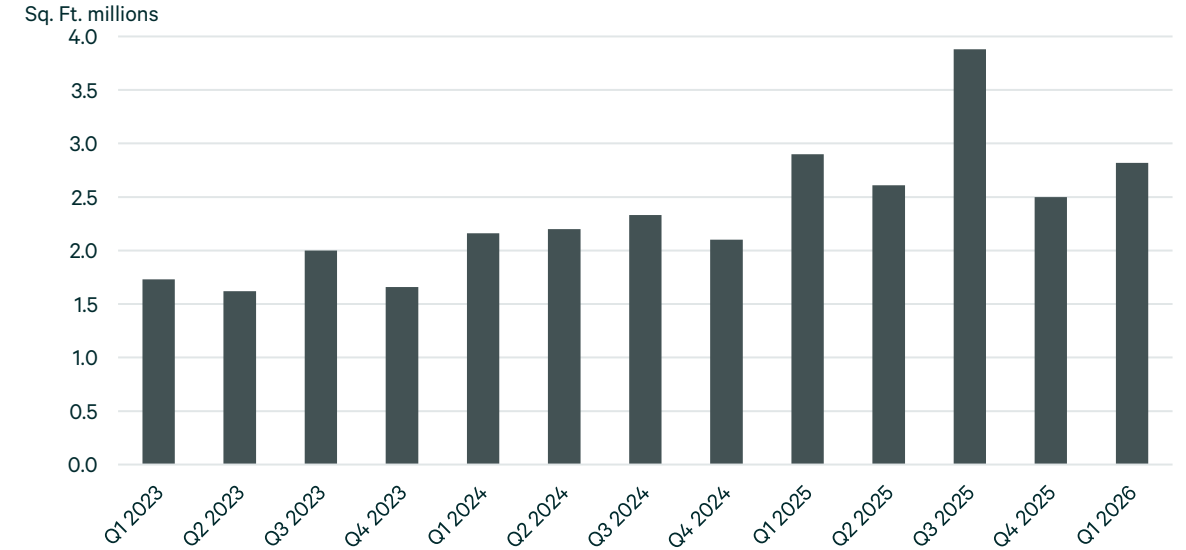
Source: CBRE Research, Q1 2026

Leasing Activity

At the close of Q1 2026, leasing activity exceeded 2.8 million sq. ft., up 12.6% Q-o-Q. However, it was down 2.8% Y-o-Y and 27.2% lower than the peak of 3.9 million sq. ft. reported in Q3 2025. In comparison to just three years prior (Q1 2023), leasing activity is up 38.7%, underscoring a marked expansion in demand. From Q1 2023 through Q1 2026, cumulative leasing totaled 30.5 million sq. ft.

Central San Diego records the highest leased area at 901,596 sq. ft., followed by North County at 824,663 sq. ft., making them the most active submarkets. South San Diego, Southwest Riverside, and East County also post leasing activity at 565,068 sq. ft., 471,747 sq. ft., and 96,953 sq. ft., respectively.

Figure 6: Leasing Activity Trend



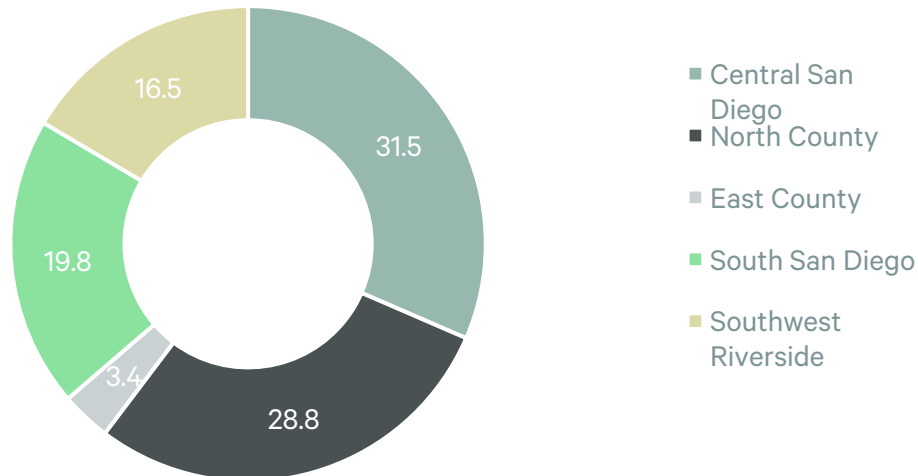
Source: CBRE Research, Q1 2026

Figure 8: Key Lease Transactions

Tenant	Sq. Ft. Leased	Transaction Type	Address	Submarket
Scotts Temecula Operations	412,580	Renewal	42375 Remington Ave	Southwest Riverside
Northrop Grumman Corp.	168,072	Renewal	16710-16750 Via del Campo Ct	Central San Diego
Martin Furniture	116,520	Renewal	2345 Britannia Blvd	South San Diego
Republic Moving & Storage	77,154	Renewal	8140 Saint Andrews Ave	South San Diego
SeaWorld	71,619	Renewal	7411 Goen Pl	Central San Diego
Suarez Brokerage	69,301	New Lease	8409 Kerns St	South San Diego
Dr. Bronner's Magic Soaps	63,640	Renewal	1355 Park Center Dr	North County
Laird Technologies	62,381	Renewal	2091 Rutherford Rd	North County

Source: CBRE Research, Q1 2026

Figure 7: Leasing Activity by Submarket (% of Total Activity)



Source: CBRE Research, Q1 2026

Market Statistics by Submarket

Figure 9

Submarket	Net Rentable Area (MSF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate (\$/SF NNN/mth)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Central San Diego	64.13	5.6	8.5	6.7	1.8	1.80	(145,957)	(145,957)	-	178,175
East County	16.04	2.5	3.5	3.4	0.1	1.53	31,819	31,819	-	-
North County	50.81	6.9	9.6	8.5	1.0	1.36	(362,217)	(362,217)	125,076	20,006
South San Diego	41.71	10.7	14.6	13.3	1.3	1.18	(65,593)	(65,593)	-	748,085
Southwest Riverside	15.31	4.5	8.0	7.0	1.0	1.22	(12,909)	(12,909)	-	-
Total	188.00	6.7	9.7	8.4	1.3	1.41	(554,857)	(554,857)	125,076	946,266

Source: CBRE Research, Q1 2026

Market Statistics by Product Type

Figure 10

Product Type	Net Rentable Area (MSF)	Total Vacancy (%)	Total Availability (%)	Direct Availability (%)	Sublease Availability (%)	Avg. Direct Asking Rate (\$/SF NNN/mth)	Current Quarter Net Absorption (SF)	YTD Net Absorption (SF)	Deliveries (SF)	Under Construction (SF)
Distribution/Logistics	65.56	9.9	13.1	11.6	1.5	1.32	(243,671)	(243,671)	125,075	946,266
Manufacturing - General	65.75	3.6	6.1	5.1	1.0	1.38	(37,283)	(37,283)	-	-
R&D/Flex	30.77	6.7	11.0	9.2	1.8	1.74	(136,146)	(136,146)	-	-
Other Industrial	25.92	6.7	8.5	7.7	0.9	1.48	(137,757)	(137,757)	-	-
Total	188.00	6.7	9.7	8.4	1.3	1.41	(554,857)	(554,857)	125,075	946,266

Source: CBRE Research, Q1 2026

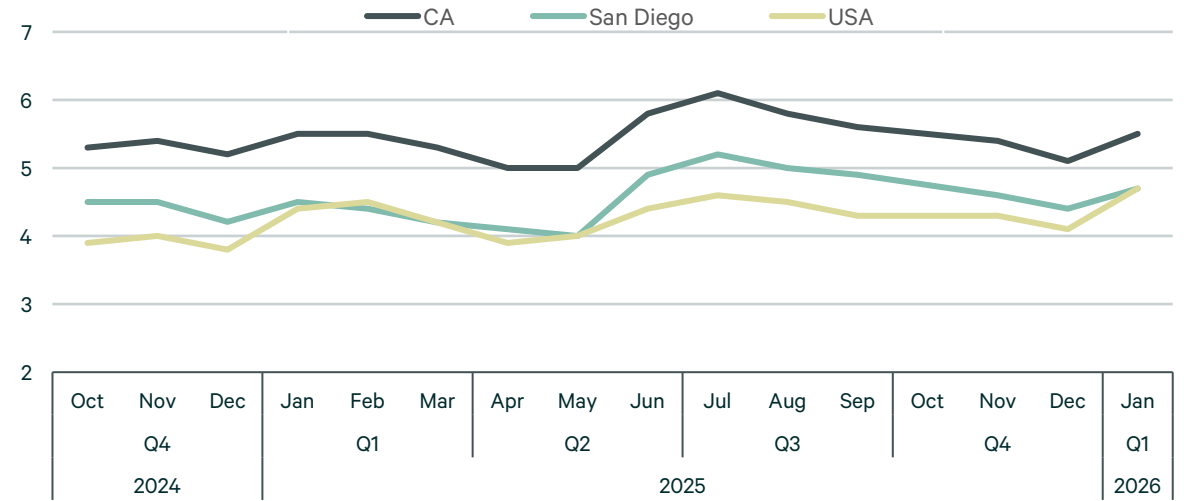
Economic Overview

Although the current U.S. business cycle is roughly five years old, economic growth remains resilient despite clear risks on the horizon. Real GDP growth is expected to average 2.1%, matching 2025 levels and continuing to outperform peer economies. A key source of strength is the aggressive build-out of AI infrastructure, with hyperscaler capital expenditures approaching 3% of GDP—just below the level of residential investment.

Nonetheless, concerns about the sustainability of this investment-driven expansion and its broader economic implications have begun to unsettle both credit and equity markets. Geopolitical developments, including Operation Epic Fury and their impact on global energy prices, add further uncertainty. If the conflict is resolved quickly and U.S. oil prices remain near \$80 per barrel, the effect on economic growth should be limited.

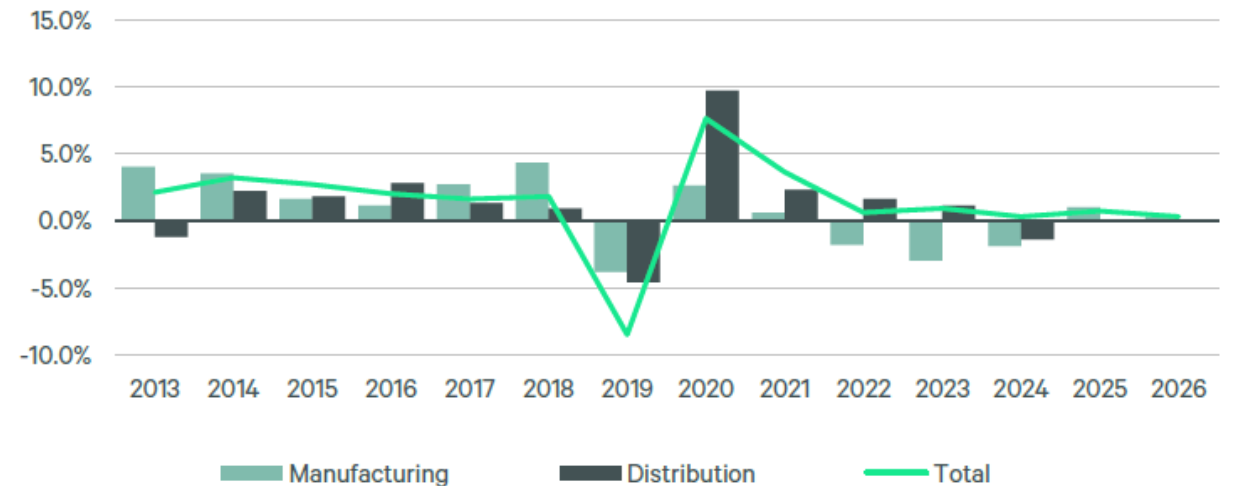
The inflationary consequences, however, are likely to be more pronounced. Headline inflation is now expected to average 3.2% this year, up from the mid-2% range forecast as recently as February. A sustained escalation would raise the risk of higher inflation and upward pressure on long-term interest rates, which would likely weigh on the commercial real estate market.

Distribution and manufacturing employment are the primary determinants of demand. Distribution Employment is defined as all the wholesale trade sector plus transportation (trucking and warehousing). The latest estimates of distribution and manufacturing employment for San Diego are 84,500 workers and 109,600 workers, respectively. Over the last five years San Diego's distribution employment has grown by 2.6% while manufacturing employment has declined by 0.7%. Over the last 12 months distribution employment has declined by 1.4% and manufacturing employment has declined by 1.9%.



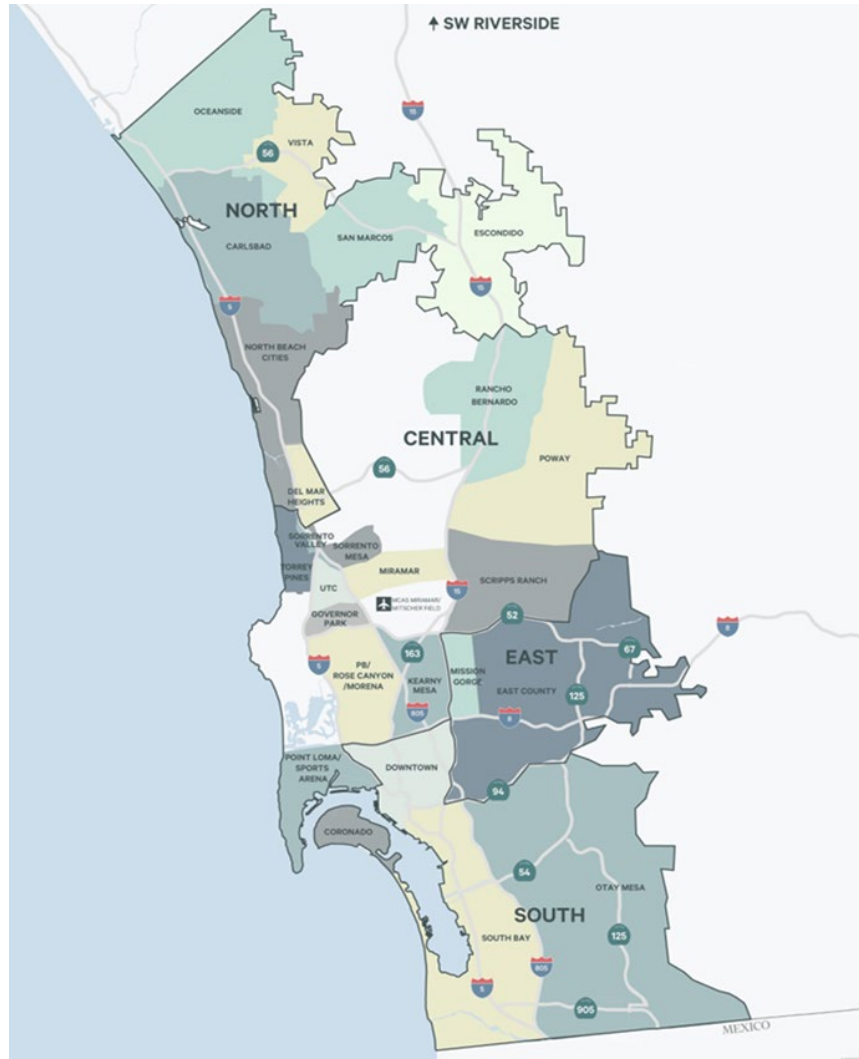
Source: U.S. Bureau of Labor Statistics, Q1 2026

Mfg and Distribution Employment Growth vs. Total Employment Growth



Source: CBRE Econometric Advisors, Q4 2025

Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days. Class A industrial are buildings built after 2000, with 32’ or greater clear height and ESFR sprinklers.

Survey Criteria

[Insert survey Criteria here. Contact your manager for specific criteria]

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